Detroit Edison

Jon P. Christinidis
Staff Attorney
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October 12, 2001

Ms. Dorothy Wideman
Executive Secretary
Michigan Public Service Commission
6545 Mercantile Way
Lansing, MI 48909-7721

Re: MPSC Case No. U-12892

Dear Ms. Wideman:

Please find enclosed for filing with the Commission an original and four copies of The Detroit Edison Company's Initial Brief along with proof of service.

Very truly yours,

Jon P. Christinidis

JPC/dj
Enclosures

cc: Service List

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application Of THE DETROIT EDISON COMPANY to Recover Implementation Costs for its Direct Access Program for the period January 1, 2000 through December 31, 2000.	))))))))	Case No. U-12892

INITIAL BRIEF OF THE DETROIT EDISON COMPANY

I.

INTRODUCTION AND SUMMARY

The instant proceeding was commenced by Application of The Detroit Edison Company ("Detroit Edison" or "Company") pursuant to the Commission's directive to conduct annual Direct Access implementation cost reviews. In addition, Detroit Edison submitted an accounting of its 2000 Direct Access program costs showing $28,269,326 in costs, and including the supporting testimony and exhibits of Joseph A. McCormick. Mr. McCormick's testimony is reported at 2T 11-20. Mr. McCormick sponsored Exhibits A-1 and A-2 which were admitted into the record (2T 20). The MPSC Staff also filed the testimony and an exhibit of Nancy G. Katsarelas, demonstrating that it has audited the Company's books and records, and recommending certain disallowances. Her testimony is reported at 2T 21-28. Ms. Katsarelas sponsored Exhibit S-3 which was admitted into the record. (2T 28) The Staff's audit concludes that Detroit Edison should be permitted to recover Direct Access implementation expenses for 2000 in the amount of $27,225,289.

The foregoing testimony and exhibits were bound into the record and the parties waived cross-examination. (2T 9-10) No other parties have filed testimony, exhibits or other evidence. The record in this proceeding consists of two volumes totaling 29 pages. Three exhibits were admitted as evidence. This matter has progressed rather quickly as a result of its limited issues which have rendered full-blown litigation less compelling.

II.

RELATED CASES, LAW AND EVENTS

The cases initiated to address Detroit Edison's annual Direct Access implementation costs have never been "stand-alone" proceedings that determined all aspects of implementing and paying for the creation of the Company's Direct Access program. Following is a brief synopsis of previous annual Direct Access implementation cost cases, the enactment of relevant legislation and subsequent enabling events.

A. 1998 Direct Access Implementation Costs

In MPSC Case Nos. U-11955/U-11956, the Commission approved the Company's incremental 1998 Direct Access implementation costs and concluded that it will "defer the means of recovery until pending questions regarding the stranded cost recovery mechanism are resolved." (MPSC Case Nos. U-11955/U-11956 Order dated October 24, 2000 p. 12) Thus, the Commission granted deferred recovery and reserved the right to undertake another review of 1998 Direct Access implementation costs in light of future circumstances. (MPSC Case Nos. U-11955/U-11956 Order dated October 24, 2000 pp. 5, 12)[1]

[1]The Commission's purported right to subsequently re-review and disallow some of the Company's audited, reasonable and prudent annual Direct Access implementation costs constitutes unlawful retroactive ratemaking and violates MCL 460.10a(1), MCL 460.10h(g) and the US and Michigan Constitutions, among other law. (US Const., Amends. V, XIV; Michigan Const. Art. 1 Sec. 17).

B. 1999 Direct Access Implementation Costs

Detroit Edison's 1999 Direct Access implementation cost case, MPSC Case No. U-12359, confirmed the reasonableness of Detroit Edison's 1999 Direct Access implementation costs. The Commission had previously concluded, in Case No. U-12478, referencing MPSC Case Nos. U-11955/U-11956, that "[i]t is reasonable to treat the costs for 1999 in the same manner [as 1998 Direct Access implementation costs.]" (MPSC Case No. U-12478 Order dated November 2, 2000 p. 11). In addition, the Commission in Case No. U-12359 also determined that recovery of 1999 Direct Access implementation costs would be subject to the conditions set forth in the Commission's order in Case Nos. U-11955/U-11956 and U-12478. Those conditions include the deferral of the means of cost recovery until the creation of a stranded cost recovery mechanism, which is the subject of MPSC Case No. U-12639. (MPSC Case No U-12359 Order dated March 29, 2001, pp. 2-3)

C. 2000 PA 141 and 2000 PA 142

As the Commission is well aware, Michigan enacted 2000 PA 141 and 2000 PA 142 (the "Acts") which restructured the electric utility industry in the State and provided for a new securitization bond financing mechanism. Consistent with the new Acts, Detroit Edison made application to the Commission to utilize securitization bonds to secure some of its stranded costs, including its actual 1998 and 1999 Direct Access implementation costs and its estimated 2000 Direct Access implementation costs.

D. Issuance of Securitization Bonds

The Commission adopted the Staff recommendation that incremental implementation costs for 1998 and 1999 be securitized as part of the Company's securitization case, MPSC Case No. U-12478. On March 9, 2001, the Company issued $1.75 billion of securitization bonds. The securitization bonds reflected the Commission's approved Company "qualified costs" that were permitted to be securitized as a result of the enactment of the Acts, which included the 1998 and 1999 Direct Access implementation costs.

Thereafter, Detroit Edison recovered its 1998 and 1999 Direct Access implementation costs through the issuance of its securitization bonds. The result of MPSC Case Nos. U-12478 and U-11955/U-11956 is that the Commission approved the issuance of securitization bonds sufficient to recover Detroit Edison's incremental 1998 and 1999 Direct Access implementation costs and reserved the right to reevaluate the prudence of those expenditures.

The Commission found that Detroit Edison's estimates for 2000 Direct Access implementation costs should not be securitized until there had been an opportunity for review, but permitted the Company to treat those costs as a regulatory asset and permitted Detroit Edison to seek recovery as appropriate in other proceedings. (MPSC Case No. U-12478 Order dated November 2, 2000 p. 11)[2]

E. <u>2000 Direct Access Implementation Costs</u>

These proceedings serve a similar function with regard to Detroit Edison's 2000 Direct Access implementation costs. Detroit Edison has proposed that it recover its actual 2000 Direct Access implementation costs through the residual securitization bond savings

[2]The Commission did not change its position on this matter in its Opinion and Order on Detroit Edison's Petition for Rehearing and Clarification dated January 4, 2001. Detroit Edison submitted a letter irrevocably accepting the conditions set forth in the U-12478 Orders. (MPSC Case No. U-12478 Order dated January 4, 2001 pp. 8-9)

provided by Detroit Edison's issuance of securitization bonds. (MPSC Case No. U-12639)

Detroit Edison filed its Application in this proceeding and acknowledged that MPSC Case No. U-12639, "In the matter of the Commission's own motion to implement the provisions of Section 10a(10) of 2000 PA 141", would likely address the means of recovering the expenses incurred by Detroit Edison. (Detroit Edison Application for Recovery of 2000 Retail Access Program Implementation Costs dated March 30, 2001)

The instant proceeding provides the Commission an accounting and audit of those reasonable and prudent costs in order to justify recovery, with the understanding that there is a clear statutory requirement to allow Detroit Edison to recover the costs of implementing Direct Access.[3]

III.

THE INSTANT PROCEEDINGS

In the instant matter, the MPSC Staff has conducted its audit and concluded that Detroit Edison should be permitted to recover its incremental Direct Access implementation expenses for 2000 in the amount of $27,225,289. (2T 27; Exhibit S-3) Detroit Edison agrees to accept this amount as its recoverable 2000 Direct Access implementation costs.

[3]"No later than January 1, 2002, the Commission shall issue orders establishing the rates, terms and conditions of service that allow all retail customers of an electric utility or provider to choose an alternative electric supplier. *The orders shall provide for full recovery of a utility's net stranded costs and implementation costs as determined by the commission."* MCL 460.10a(1); See also MCL 460.10h(g) which lists "retail open access implementation costs" as "qualified costs" for recovery through the issuance of securitization bonds.

No party submitted any evidence contesting the fairness and reasonableness of at least $27,225,289 of incremental 2000 Direct Access implementation costs for Detroit Edison.[4]

As discussed above, Detroit Edison has requested the authority to recover its incremental 2000 Direct Access implementation costs through residual securitization savings in MPSC Case No. U-12639. (2T 19) However, in any event, Detroit Edison is statutorily entitled to complete recovery through some means and the Commission must provide an alternative means of recovery if the Company's proposal in that case is not accepted. (See MCL 460.10a(1); MCL 460.10h(g))

IV.

CONCLUSION AND REQUEST FOR RELIEF

Detroit Edison set forth evidence showing that its 2000 expenditures for implementation of Direct Access were reasonable and prudent. The MPSC Staff agreed to the extent Detroit Edison's expenses were incremental, and supported recovery in the amount of $27,225,289. Detroit Edison accepts that amount. Detroit Edison has requested

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[4]The Company provided ample evidence that the costs incurred by Detroit Edison in 2000 for the implementation of Direct Access are reasonable and prudent. For example, Mr. McCormick testified:

"The cost-effective approach to systems development was chosen due to the dynamic nature of the business requirements and the complexity of the business transactions. Where applicable, existing computer systems at Detroit Edison have been modified and web-enabled to interface with suppliers, customers, and internal support centers. These systems allow customers and energy suppliers with Internet access to interact with the ECIT program electronically. The Detroit Edison Electric Choice program is further described in the Company's June 30, 1998 Customer Choice Implementation Plan which was filed with, reviewed and approved by the Commission in its March 8, 1999 Order in Case No. U-11290…" "In 2000, ECIT continued the design of key processes and continued moving from manual systems to computer systems capable of handling low volumes of customer enrollments and customer supplier billing. The 2000 key milestones are presented on the attached Exhibit No. A-2 (JAM-2)…" "The primary reason for the difference between actual and estimated 2000 expenditures is the lower than forecasted level of Electric Choice participation, which leads to lower transaction and metering costs. The source department most impacted was Data Acquisition. The purchase and installation of meters, as well as meter-related programming expenses, has been deferred because of lower than forecasted enrollments…" "I am proposing that all of the prudently incurred expenses that I've described be recovered consistent with the Company's filing in Case No. U-12639, as described by Mr. VanHaerents." (2T 16,18,19;Exhibit A-2 Attached)

Clearly, Detroit Edison's expenditures were designed and implemented in a manner that achieves a reasonable and prudent cost of providing Direct Access.

recovery of its 2000 Direct Access implementation costs through the residual savings associated with the issuance of Detroit Edison's securitization bonds, which the Commission has approved in MPSC Case No. U-12478. Thus, Detroit Edison respectfully requests that the Commission confirm the Company's interpretation of the purpose and scope of this proceeding, take any additional action it deems appropriate to implement that outcome, and issue an order providing for recovery of at least $27,225,289 for Detroit Edison's 2000 Direct Access implementation costs.

Respectfully submitted,

THE DETROIT EDISON COMPANY

By:______________________________

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Dated: October 12, 2001

MPSC Case No. U-12892
Exhibit No. A-2 (JAM-2)
Page No. 1 of 1
Witness J.A. McCormick

Number		Date
1	Defined Electric Choice business requirements for mass market functionality	1-May-00
2	Established baseline and monitored Electric Choice awareness among customers	29-May-00
3	Established baseline and monitored Electric Choice awareness among employees	29-May-00
4	Supplier on-line bill presentment operational	28-Jun-00
5	Provided customer usage data via the Web	30-Jun-00
6	Rendered first Electronic Funds Transfer (EFT) transaction as part of complete billing	30-Jun-00
7	Automatic Meter Reading (AMR) limited pilot operational	30-Jun-00
8	Electronic Data Interchange (EDI) enrollment operational	7-Jul-00
9	Executed automated enrollment from Customer Service Billing (CSB) to Key Customer System (KCS)	10-Jul-00
10	Marketer emergency service billing operational	6-Sep-00
11	Marketer billing operational for low-volume (<10,000 customers)	16-Oct-00
12	Retailer billing operational for low-volume (<10,000 customers)	16-Oct-00
13	Implemented Information Technology programming development productivity improvement	20-Oct-00
14	Web system architecture enhancements completed	17-Nov-00
15	Processes/systems in place to effectively serve up to 10,000 customers	11-Dec-00
16	Developed transition strategy for 2002	29-Dec-00
17	AMR next step recommendation approved	29-Dec-00

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter, on the Commission's) own motion, to implement the) provisions of Section 10a(10)) of 2000 PA 141.) _______________________________)	MPSC Case No. U-12892

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss
COUNTY OF WAYNE)

DORIS J. HILL-SHAVERS, being duly sworn deposes and says that on the 12th day of October, 2001 she served a copy of The Detroit Edison Company's Initial Brief upon the parties listed on the attached Service List, a copy of which is attached, by electronic mail and by depositing properly addressed sealed and stamped envelopes into the United States mail by first class.

Doris J. Hill-Shavers

DORIS J. HILL-SHAVERS

Subscribed and sworn to before
me this 12th day of October, 2001

Christina Jacobson

CHRISTINA R. JACOBSON
NOTARY PUBLIC WAYNE CO., MI
MY COMMISSION EXPIRES Mar 10, 2005

MPSC Case No. U-12892
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(*As of October 10, 2001*)

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